# Saudi Arabia's Special Economic Zones: A New Chapter in the Kingdom's Investment and Tax Landscape

2026 has marked a significant milestone in Saudi Arabia's Special Economic Zone ("SEZ") journey, as the Kingdom has continued to strengthen the regulatory and tax framework underpinning its ambition to attract high-value investment, develop strategic industries and position Saudi Arabia as a regional hub for trade, logistics, technology and advanced manufacturing.

The regulatory framework for the Kingdom's SEZs has been complemented by further guidance and procedural clarification from the Zakat, Tax and Customs Authority (ZATCA), providing greater visibility on the practical application of tax and customs rules. The evolving regime brings together a compelling package of incentives, including preferential tax treatment for qualifying activities, VAT and customs facilitation and other investment benefits, while placing greater emphasis on substance, qualifying activities, documentation, and compliance. Recently, ZATCA has continued to enhance its suite of guidelines and procedural materials, providing taxpayers with greater clarity on the administration of tax and customs obligations.

For investors, the message is clear, Saudi SEZs are moving beyond the concept of tax incentives alone towards a more structured ecosystem where eligibility, economic substance and ongoing regulatory compliance will be critical to unlocking and sustaining the available benefits.

## SEZ's and SILZ incentives:

| Key Feature / Incentive | Geographically Defined SEZs *(KAEC, Ras Al-Khair, Jazan)* | Cloud Computing & IT SEZ *(Riyadh/Nationwide)* | Special Integrated Logistics Zone – SILZ *(Riyadh Airport)* |
|---|---|---|---|
| **Resolution/ Order** | **Council of Ministers Resolution No. (468) read with ZATCA guidance and procedural guidance dated August 2026** | | **Royal Order A/17 read ZATCA guidance dated December 2023** |
| **CIT on qualifying income** | • **5% reduced rate** for 20 years | • Standard 20% rate | • **0% rate for 50 year** |
| **WHT relief** | • All payments to non-residents related to Qualifying Income are **Exempt from WHT**;<br>• Monthly reporting requirements are exempt. However, SEZ entities are subject to annual reporting of WHT statement. | • Standard statutory WHT rates apply | • **0% WHT on** qualifying related-party payments (E.g., *(dividends, loans, royalties, technical services);* and<br>• Reporting requirements continue (ie., full monthly/annual filing) |
| **VAT** | • **0% rate** on goods under customs suspension related to Qualifying Activities; and<br>• Goods imported from outside KSA are outside the scope of VAT | • **Standard mainland rules** apply (i.e., 15%, or 0% / exempt) | • VAT-suspended status within the zone;<br>• 0% VAT on mainland-to-Zone supplies, provided they are in relation to the licensed zone activities;<br>• Goods released to the mainland are treated as imports to a mainland recipient and import VAT applies; and<br>• VAT-registered entities can recover input VAT via periodic return or direct refund request |

## SEZ’s and SILZ incentives (continued…):

| Key Feature / Incentive | Geographically Defined SEZs *(KAEC, Ras Al-Khair, Jazan)* | Cloud Computing & IT SEZ *(Riyadh/Nationwide)* | Special Integrated Logistics Zone – SILZ *(Riyadh Airport)* |
|---|---|---|---|
| **Customs Relief** | • Suspended on goods imported into the zone for Qualifying Activities; and<br>• Duties trigger upon entry into the mainland | • Standard mainland customs rules apply | • Suspended on goods remaining in the zone or moved in from any port, including the airport;<br>• Temporary exports still retain duty exemption on re-import if Customs laws are met; and<br>• Duties apply on exit to the mainland, with defined refund provisions for re-exports |
| **Zakat** | • Exempt, subject to Conditions | • Specific SEZ framework to be reviewed | • Zakat rules continue to apply |
| **International Principles/ OECD** | • Standard Income Tax Law and Transfer Pricing Bylaws apply | • Follows OECD Commentaries for payment characterization (e.g., software use treated as business profits rather than royalties); and<br>• Permanent Establishment (PE) rules | • KSA Transfer Pricing Bylaws apply in full;<br>• For related-party transactions with mainland affiliates - **Special Anti-Avoidance Rule** targeting the transfer of pre-existing mainland activities into SILZ to prevent artificial migration for tax-holiday purposes |
| **Foreign investment** | • Permitted, subject to conditions | • Permitted, subject to conditions | • Permitted, subject to conditions |
| **Economic Substance** | • Mandatory | • Mandatory | • Mandatory |

## Qualifying Activities:

| Zone | Qualifying Activities |
|---|---|
| **King Abdullah Economic City (KAEC)** | Advanced manufacturing (automotive, FMCG, pharmaceuticals, medical devices, packaging, geochemistry), logistics, and construction |
| **Ras Al-Khair** | Offshore rig building, shipbuilding, maritime industries, and maritime services |
| **Jazan** | Food manufacturing, metal processing/conversion, and logistics services |
| **Cloud Computing & IT SEZs** | Cloud computing services, IT programming, fintech, Industry 4.0*, digital health, and smart mobility |
| **Special Integrated Logistics Zone (SILZ)** | • Maintenance, repair, processing, modification, assembly, and sorting of goods;<br>• Packing, repacking, trading, distribution, and simple manufacturing; import, export, and re-export activities; and<br>• Value-added, logistics, and after-sales services; and waste/e-waste recycling |

**Industry 4.0 is the fourth industrial revolution, defined by the integration of intelligent digital technologies such as IIoT, AI, cloud computing, and cyber-physical systems—into manufacturing to enable smart, connected, and highly automated factories.*

## Methodology:

### *Corporate Income Tax & WHT*

- **Dual-Rate Calculation:** Entities earning both qualifying and non-qualifying income in geographical SEZs must calculate the tax base separately. Where unsegregated, the standard 20% rate applies proportionally using the formula:

$$\text{Taxable Base (20\%)} = \text{Total Base} \times \left(\frac{\text{Non-Qualifying Income}}{\text{Total Income}}\right)$$

- **WHT Exemption & Reporting:** Qualifying SEZ entities are exempt from withholding tax on cross-border payments. However, filing an **annual withholding tax statement** within 120 days of the financial year-end remains mandatory.

*Note: Since the annual return is ZATCA's only checkpoint on these exempt payments, it's likely to face closer scrutiny than a typical NIL filing. The burden falls on that single annual filing to prove every payment is genuinely qualified as a Qualifying Activity. It's worth building that documentation trail throughout the year (invoices, contracts, activity classifications), rather than trying to reconstruct it at the brink of the 120-day deadline.*

### *Value Added Tax (VAT) & Customs Controls*

- **Movement of Goods:** Supplies of goods between licensed establishments within or across geographically defined SEZs are subject to 0% VAT, provided they remain under customs suspension;

- **Mainland Supplies:** Goods moving from an SEZ to the KSA mainland are treated as imports. Customs duties and VAT apply at the point of release into free circulation; and

- **VAT Registration Exception:** Establishments whose supplies are *wholly* zero-rated are exempt from mandatory VAT registration, though voluntary registration is available to claim input VAT refunds.

### *Transfer Pricing & Inventory Tracking*

- **Arm's-Length Standard:** All transactions between related parties must adhere to KSA Transfer Pricing Bylaws. Entities must submit local files, master files, and CbCR reports where thresholds are met; and

- **E-Inventory System:** SEZ licensees must implement an auditable electronic inventory management system linked to ZATCA to reconcile inputs, manufacturing wastage, and balances.

### *Exceptions & Key Non-tax Incentives:*

### *Exceptions*

- **Local / GCC Investor Treatment:** Under standard mainland rules, 100% Saudi/GCC-owned entities pay Zakat. However, within geographically defined SEZs, 100% Saudi/GCC-owned entities engaged in Qualifying Activities fall under the **5% Corporate Income Tax regime** instead of Zakat; and

- **Mainland Branch Ring-Fencing:** SEZ entities setting up a branch in the mainland economy must obtain a separate Tax Identification Number (TIN). Mainland branches do **not** qualify for SEZ incentives and are subject to standard mainland rules.

### *Foreign Talent & Expatriate Levy Relief*

**Workforce Incentives (via ECZA & MHRSD):** Although not covered in proposed ZATCA's tax manual, the broader SEZ regulatory package administered by ECZA and the Ministry of Human Resources and Social Development (MHRSD) offers:

- **Expatriate Levy Waivers:** Relief from dependent/ family levy fees for employees attached to SEZ licenses - directly offsetting the SAR 400/ month-per-dependent cost that applies under standard mainland rules; and

- **Flexible Foreign Talent Rules:** Streamlined work visa issuance and tailored Saudization thresholds designed for specialized technical roles during first five years of a licensed entity's operations.

  *(Note: Tailored thresholds for SEZ entities means adjusted profession level targets during set-up phase rather than a blanket exemption from Nitaqat altogether)*

## How we can support:

- **SEZ Strategic Assessment & Selection:** Zone Feasibility Analysis, Incentive mapping, Entry strategy;
- **Operational Structuring & Tax Optimization:** Corporate structuring, Economic Substance design, Customs & Supply chain strategy;
- **Regulatory Compliance & Ongoing Advisory:** ZATCA & ECZA Alignment, Transfer Pricing advisory, Audit readiness;
- **Integrated SEZ Advisory Execution**.




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